

State of Israel

Office of the State Comptroller

Performance Audit

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Performance Audit - Definition

- Performance auditing is a process which uses available evidence to form an opinion on the extent to which an agency utilizes its resources in an economic, efficient and effective manner.
- Performance auditing adds real value to public administration, and is known in some countries as a “value for money” audit.

The Strategic Planning Process

(Source: Asosai guidelines)

● INPUTS

- Previous audit strategy planning
- Government views, budget papers, etc
- Agency annual reports and evaluations
- Media and external reports
- Previous audit fieldwork
- Analysis of performance indicators
- Discussions with agencies, clients, etc
- Priorities of legislature
- **Priorities of government**
- **Complaints of the public**

● OUTPUTS

- Audit Strategy Plan
 - Potential audits
 - Priorities
 - Resource requirements
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- Budget

Selecting Audit Topics

- The analysis of risks of poor performance or risks of inadequate economy, efficiency and effectiveness will lead to a list of potential audit topics. It can be useful to rank the topics subjectively against the following criteria:
- Overall estimated audit impact;
- Financial materiality;
- Risk to good management;
- Significance of the program to the activities of the agency;
- Visibility of the program/activity as reflected in its political sensitivity and national importance; and
- Lack of recent audit coverage and other internal and external review of the program/activity.

Overall estimated audit impact

- Of major importance in the final selection of topics is the added value expected from the audit. A preliminary assessment of the audit's likely benefits should be made at this strategic planning stage.
- Some of the potential impacts of performance auditing classifies the benefits by reference to: economy; efficiency; effectiveness; quality of service; planning, control and management; and accountability. Quantification is desirable but unlikely to be feasible at the strategic planning stage.

Financial materiality

- This criterion is based on an assessment of the total value of assets, liabilities, annual expenditure and annual revenue of the selected audit area. The more material an area is, the higher is its priority for selection as an audit topic.

Risks to good management

- Assessment of risks to good performance in the agency requires the SAI to assess whether the management of the activity to be audited is likely to be deficient in economy, efficiency and effectiveness.
- **Evidence of risk to good management includes:**
 - - Management inaction in response to identified weaknesses;
 - - Adverse comment by the legislature or media;
 - - Non-achievement of stated objectives such as revenue raised or clients assisted;
 - - High staff turnover;
 - - identified weaknesses in internal control;
 - - Significant under spending or overspending;
 - - Sudden program expansion or contraction; and
 - - Overlapping or blurred accountability relationships.

(continued)

An agency program or activity that is more complex to manage and operates in an uncertain environment is more likely to have problems associated with performance. Some possible indicators of high complexity and uncertainty are:

- Highly decentralized operations with devolved management decision-making responsibilities;
- A multiplicity of interested parties;
- Use of rapidly changing and sophisticated technology;
- A dynamic and competitive environment; and
- Controversial social and political debate surrounding the issue.

(Continued)

- The stage of the agency's program development should also be kept in mind when assessing management performance. For example, in the development stages it will be particularly important for the agency management to set measurable, operational objectives, which clearly identify how the program will contribute to the agency's objectives. During program implementation it will be important to ascertain whether appropriate performance measures are maintained and analyzed to assess performance, and whether there is a clear identification of roles and responsibilities for each level of the program/activity. If the program has been in place for some time it will be important to assess whether a formal evaluation has been undertaken to ascertain whether the program is continuing to meet relevant needs and the extent to which those needs still exist or are being met by other programs.

Significance

- The significance of an audit topic should have regard to the magnitude of its organizational impacts. It will depend on whether the activity is comparatively minor and whether shortcomings in the area concerned could flow on to other activities within the agency.
- Significance will rate **highly** where the topic is considered to be of particular importance to the agency and where improvement would have a significant impact on the operations of the agency. A **low** ranking in relation to 'significance' would be expected where the activity is of a routine nature and the impact of poor performance would be restricted to a small area or be likely to have minimal impact.
- Cross-agency audits are more likely to rank highly on significance.

Visibility

- This criterion is similar to significance but is more concerned with the external impact of the program. It is related to the social, economic and environmental aspects of the activity and the importance of its operations to the government and the public. In considering this criterion some weight would be attached to the impact of an error or irregularity on public accountability. It would also have regard to the degree of interest by the legislature and public in the outcome of the audit. Subjects that have been identified as current themes for the SAI would generally warrant a high ranking in terms of 'visibility'.

Coverage

- Coverage refers not only to previous SAI coverage but also to other independent reviews of the activity. Such reviews may have been conducted by internal audit, external consultants or government committees or the activity could have been subject to program evaluation. As a general rule, a low ranking would occur when there has been a substantial review of the activity within the past two years. A higher ranking would be warranted where a review has been requested by the legislature or the previous review indicated that such a follow-up should occur.
- The materiality, risk, significance and visibility of an activity will also influence the ranking for coverage. If an activity has ranked highly on all or most of these elements, it would be expected that the audit coverage would be more frequent than for a lower ranked topic. The frequency of audit coverage would also depend on the SAI strategic audit plan and on the availability of resources.

Cross-agency and theme audits

- Audits that cross several agencies, addressing themes which are of relevance to the entire public sector or addressing significant national concerns, can have very high impact. Potential theme and cross-agency audits can be evaluated in the same way as other audits for inclusion in the audit program. That is, specific topics which rank more highly in terms of risk, impact and materiality should receive priority.

State Audit in Israel

The State Comptroller Law of 1958 includes the following elements of audit:

- The more traditional: regularity and legality.
- The more modern: Economy, Efficiency and Effectiveness (=Performance Audit).
- Moral Integrity
- Auditing of finance of political parties.
- The State Comptroller is also the Ombudsman

Audited Bodies

- 1. All the Government Ministries.
- 2. Every enterprise or institution of the State.
- 3. Every person or body holding State property or controlling it on behalf of the State.
- 4. Every Local Authority (Municipalities).
- 5. Every Government Company.
- 6. Every enterprise or institution subject to audit by law.
- 7. Every Government subsidiary.
- 8. Every enterprise or institution assisted, directly or indirectly, by the Government by way of a grant or a guarantee.

Selected Audit Reports

- 1. The Ministry of Education – elimination of violence and bullying in schools.
- 2. National Insurance Institution – disability allowance payments.
- 3. The Olympic Committee of Israel
- 4. The Ministry of Education – financial stimuli to teachers.

The elimination of violence and bullying in schools

- 1. Previous recommendations that dealt with the problem were not implemented.
- 2. The Ministry has no data about the extent of the problem.
- 3. Teachers have no sufficient means to cope with violent pupils even in risky situations.
- 4. Teachers' training lacks in supplying tools on how to treat violence and bullying.
- 5. Some prevention programs were initiated but because of no follow up and monitoring, their effectiveness is unknown.
- 6. Previous programs for the handling of extremely violent pupils were never carried out.

Disability allowance payments

- 1. Some of the recipients of disability allowance received more than and others less than the amounts due to them according to means tests. Others received “dependants allowance” they did not deserve.
- 2. Disabled hospitalized people are not entitled to get a full allowance. Part of their allowance is to be paid to the public institutions where they are hospitalized. In many cases the payments are not split and they receive the whole amount. This is the result of a lack of co-operation with the ministries of Health and Social Welfare.
- 3. The over payments were about 29 million Shekel and the under payments were about 33 million Shekel.

Israel Olympic Committee

- 1. Members of the Committee do not represent equally the sport organizations that take part in the Olympic games. Women are not equally represented.
- 2. The Committee accrued a financial surplus that was not used to support athletes. Part of the available resources were used to build a museum and a sports centre. No preference was given to Olympic teams that trained in the centre and they paid the full fee rather than a reduced one.
- 3. The Committee got a donation of \$12 million. Its allocation (to training camps and competitions) was not discussed with the Ministry of Sport which also deals with preparations for the Olympic games.
- 4. Before the Olympic games in Athens and Beijing, the International Olympic Committee granted stipends to Israeli athletes recommended by the Israeli Committee. These were recommended without any prior criteria.

Financial stimuli to teachers

(a follow up report)

- Since 1975 the Ministry of Education provides salary benefits to teachers who move to live and teach in peripheral areas.
- 1. The grants were given equally with no distinction between towns according to their needs and socio-economic status. There was also no distinction between teachers who teach different subjects.
- 2. In weak towns that are not located in peripheral areas, but are in desperate need for good teachers, no stimuli were provided.
- 3. In 2002 the Ministry began a research to estimate the influence of the stimuli program on teachers as far as moving to peripheral areas is concerned. The research never ended, therefore the Ministry has absolutely no idea if the program is a success or a failure.

Thank you

